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FLASH CRASH – GOLD, SILVER & BONDS

Just when you thought the markets were steady, what shocks everyone is the volatility. The one thing I have been warning about, we are in a **HUGE** bull market when it comes to volatility. This is to be expected because **CAPITAL KNOWS SOMETHING IS WRONG** – albeit it may not be able to put the finger on it. While stocks ended slightly lower, Wednesday's biggest market moves were in the bond, commodity and foreign exchange markets. The 10-year Treasury yields surging higher and the price of gold, silver and the euro dropping sharply with stocks ending February like deer in headlights – stunned and watching from the sidelines in a daze. The US share market (all three indexes) moved slightly lower as investors weighed appeared to ponder the litany of positive economic reports intermixed with the testimony from Federal Reserve chairman Ben Bernanke hinting at the end of intervention to boost the market.

US CBT 10 Year Bond Perpetual Daily Chart

When we look at the interest rate markets, there is an eerie feeling that the end is near. The 10 Year is starting to fall back into the Uptrend Channel from April 2011 and this is warning the market is getting tired. Currently, we are spending about $4 billion per week in interest. This will rise to nearly $10 billion by 2016, and will exceed $15 billion per week by 2022. The interest begins to rise exponentially **WITHOUT** a rise in interest rates with the top of the Economic Confidence Model. We are headed into a debt vortex from which politicians are both clueless and will never act until it is a crisis.

The technical look is extremely dangerous. We are in a sideways flag that is clearly manipulated by government, but the trend is unsustainable. At some point, this is going to crash in a **FLASH CRASH** fashion and that is what will create the political change **ONLY** because there is no solution to the problem that they will apply now. The Green Channel is constructed from a Breakline providing us with the true angle in this market. The steepness of the angle is warning that when interest rates enter their coming **FLASH CRASH**, it is going to be swift and major. On February 23rd, 2009, Obama said his administration would address the rising debt. He said "***I refuse to leave our children with a debt they cannot repay.***" Hello! We can't pay it off now and there is never any proposal to pay anything off. What are you and your people smoking down there?

We are headed toward a debt crisis of untold proportions. This is so drastic that it will bring down all government and require a complete restructuring. This is the same type of crisis brought down Communism in both China and Russia. We are past the point of no return. This chart illustrates how we are out on a limb and when it crashes, it will be a straight flush down to support.

Despite reality, prior to the US opening, the European Central Bank announced results of its second Long-Term Refinancing Operation, which is a program designed to let banks of course borrow money for 3 years at interest rates as low as 1%. The central bank said it will lend €529.5 billion, or $721.4 billion, to European banks, more than the €500 billion that it handed out during the program's first round in December. Government continues to bend over backwards to help the banks, but the banks are not passing on the savings in interest rates to the people. One cannot borrow money except on a secure basis. These changes in lending practices, combined with refusing to pass on savings to the economy in interest rates, are setting the stage for a major disaster. Capital will leave the banks for better opportunity and that includes equities. Even things like gold have lost their carrying cost making it cheaper to own gold relative to a loss in interest income.

Meanwhile, the U.S. government said the country's economy grew at an annual rate of 3% during the fourth quarter, up from its initial estimate of 2.8%. The February installment of the Chicago Purchasing Managers Index came in higher than expected at 64, above January levels and still well above the 50 threshold that signifies manufacturing expansion. This was taken as positive since the Federal Reserve also released its outlook report, which said that overall economic activity continued to increase at a modest to moderate pace in January and early February. The Fed's Beige Book, which is a summary of outlooks from the 12 district banks across the country, found also that manufacturing continues to expand.

Dow Jones Daily Cash Chart

The Dow Jones Industrial Average is up 2.5% in February and 6% for the year. The S&P added 4.1% in February and 8.6% in 2012. The Nasdaq, which briefly crested above the 3,000 mark Wednesday, moved up 5.4% for the month and 14% for the year. The rise in the US stock market is clearly not well understood. Capital is starting to shift from bonds to stocks and at this early stage it remains confusing at best. We can see that the Dow Jones Industrials remains within the Uptrend Channel (Blue). The Dow exceeded the Downtrend Line (Red), tested it from above, and then has proceeded to move higher. The Breakout Channel (Green) has now been entered and this now provides support.

We closed February at 12952.07. This was a decent monthly closing above the 2011 high. This implies that we can see some further upside in the Dow Jones Industrials. The fact that the interest rate perspective looks that rates will rise this is normally an indication of an economic expansion. In the instant matter, it is not a SPECULATIVE bubble that is driving rates higher, but the shift in capital from bonds and banks to private investment. If this indeed proves to be the real source of rising rates, a decline in cash on deposit in banks, then the primary beneficiary should be the share market.

The wild move in gold on Wednesday was matched in silver and in proportion with the 10 year rates. The drop from 1795.4 to 1684.9 was swift and wild to say the least. The drop from 1763 to 1727 took all but 2 minutes. It started moments after Federal Reserve Chairman Ben Bernanke began testifying before Congress at 10 a.m. Wednesday. Almost immediately, prices on gold dropped more than 4%, and the euro also dropped from $1.3460 to $1.3400 while rates on the 10 year Treasury jumped from 1.94% to over 2%.

This FLASH CRASH has led to speculation that it may have been a large Treasury trade gone wrong that caused computer trading models to react selling gold, silver and in the euro with rising rates and in theory a stronger dollar. Some have claimed that Bernanke failed to give hope during his speech to Congress that the Fed would continue to provide monetary support to the market and that would mean inflationary policies bullish for gold. However, this focus on more quantitative easing could be coming is seriously flawed.

The gold closing for February came in at 1714.8. Gold failed to provide a monthly buy signal, yet it did manage to hold a Monthly Bearish Reversal it generated from the high this month at 1673.0 falling intraday to 1684.9. Resistance during March will continue to stand at 1756. We were unable to close above the Daily Bullish Reversals provided in the 2012 Report and this was a sign of weakness. When you are right there and fail to accomplish what should be simple, there is always a reason.

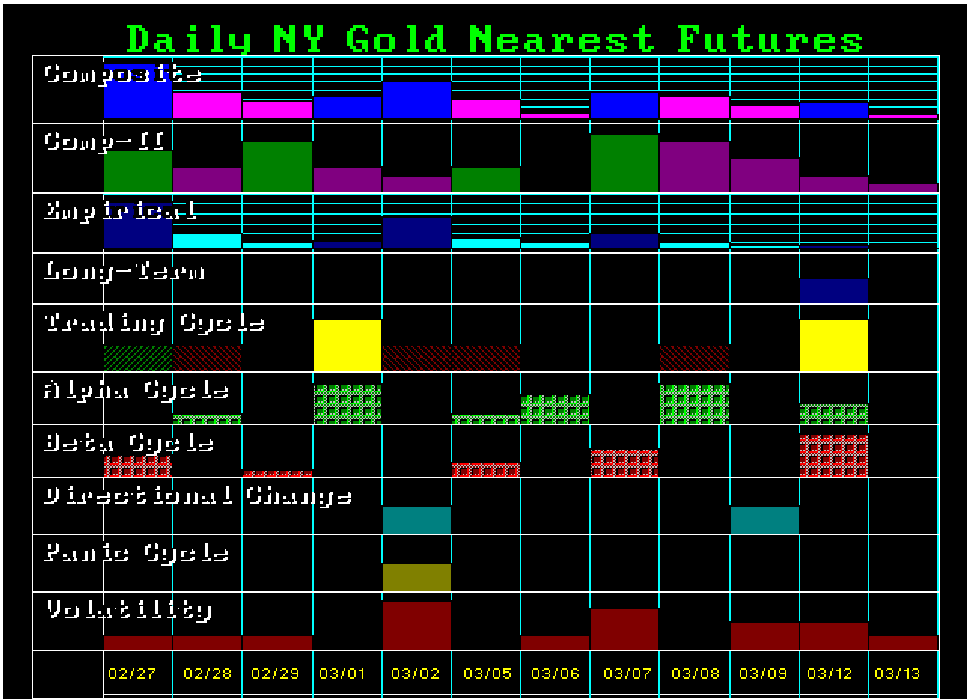
Perhaps because of Leap Year, the Panic Cycle on gold may have been off. The computer did show the 29th for the Panic Cycle due in Silver. A Panic Cycle is typically an **OUTSIDE REVERSAL** that can be to the upside or down. What it means is you will most often exceed the previous high and penetrate the previous low. This was accomplished in spades.

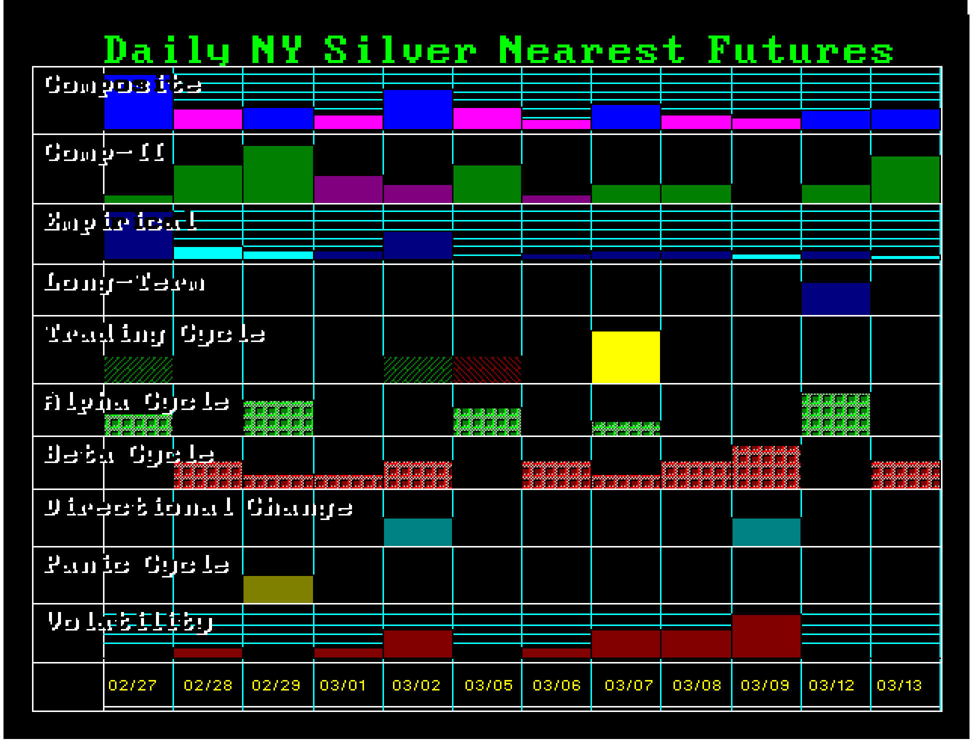
The Daily Bearish Reversals to watch are 1668.6 and 1673.6. A daily closing below that will warn or a revisit of support. Again, this is the 13th Year. It would be far better long-term to accomplish a low rather than a high. That would set the stage for just about every year after 2012 moving high into 2017. We do have the Economic Confidence Model turning points at 2015.75 and 2020.05. This is where interest expenditure will start to move quite exponential **ASSUMING NO RISE** in interest rates **(which is IMPLAUSIBLE)**.

We currently have a Daily Bullish Reversal standing at 1758.0. A daily closing back above this is necessary to signal a resumption of the uptrend.

Keep in mind as was previously warned, both February and March are back to back Monthly Directional Change targets and that warned both directions would be challenged.

As we can see from our volatility models, next week looks to be active. We do have Directional Changes due tomorrow in both gold and silver.





Silver 24 Hour Perpetual Daily Chart

SILVER

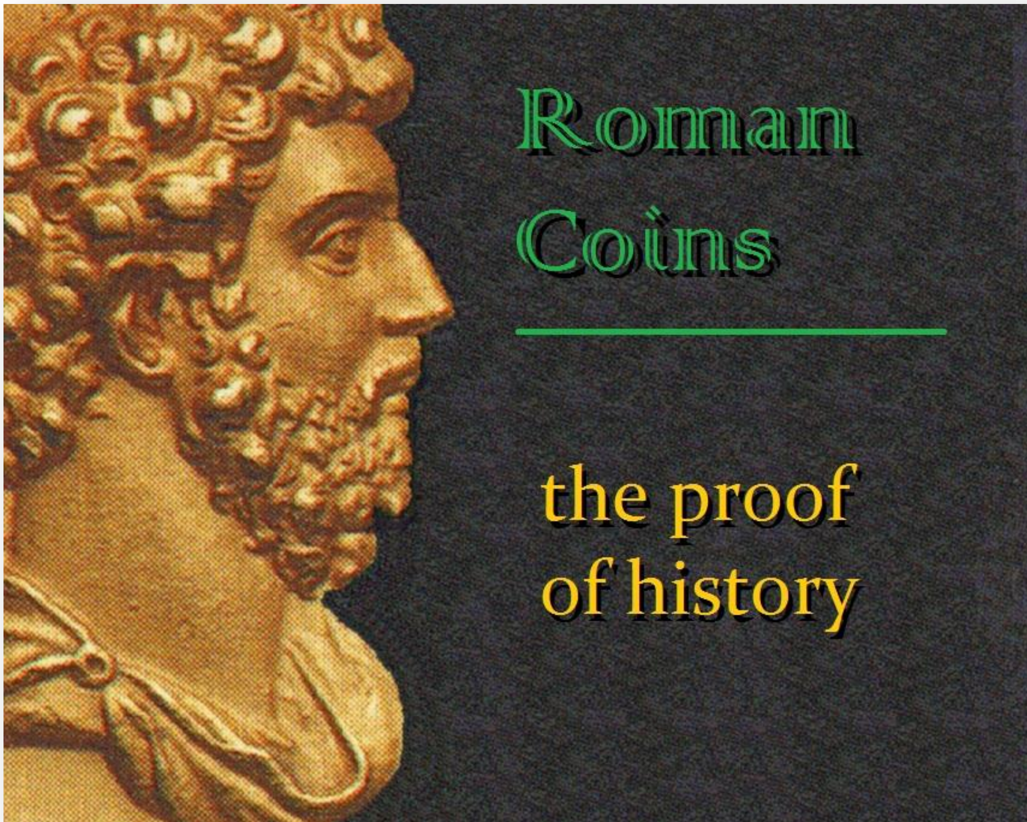
For now, February at least closed ABOVE 3374 leaving silver somewhat bullish to neutral. But only a monthly close above 4350 will signal a possible breakout which does not seem to be in the cards as yet. Our Daily Bearish Reversals lie at 3431 and 3337. A Weekly Closing back below 3305 would suggest that a decline is underway with a drop back to 3160. A monthly closing BELOW 3072 will also signal that we should get a 13 year low rather than a high.

CONCLUSION

We continue to keep a close eye on oil and rising gas prices and Wednesday provided the 22nd straight up-day in gas prices while crude oil prices continued to decline. The European stocks closed rather mixed with the FTSE 100 and the German DAX slightly down as France's CAC 40 rose 0.3%. Asia was also rather mixed. The Shanghai Composite dropped 1%, Japan's Nikkei ended about unchanged, and the Hang Seng rose a modest 0.5%.

Apple shares moved higher driving the company's value on the stock market to above $500 billion making it worth more than Greece. So if there is any doubt that shares can offer a nice income producing alternative to sovereign debt, perhaps you should load up on more debt and pray for the best. James Murdoch has announced he would step down as executive chairman of the U.K. publishing unit as his son is embattled in ongoing questions about his role in the UK hacking scandal. The price of shares there of News Corp. rose as if that will really make any difference. This is all about UK politicians getting retribution for having to kiss Murdoch’s ass for so many years. Politicians never really give two shits about the people. Unless they benefit, they do nothing!

Nevertheless, this Flash Crash was by no means a “Fat-Finger” Error as portrayed previous. This Flash Crash was illustrating how unsettled the markets are and the lack of confidence in general that exists. Of course, the rumors prefer to blame a cascade effect that of algorithmic and high-frequency trading



platforms. Others call this the robot attack. Still others say it was JP Morgan who sold gold short a other attribute it to selling one million ounces of gold all at once for an Asian fund (10,000 futures contracts).

Roman Coins

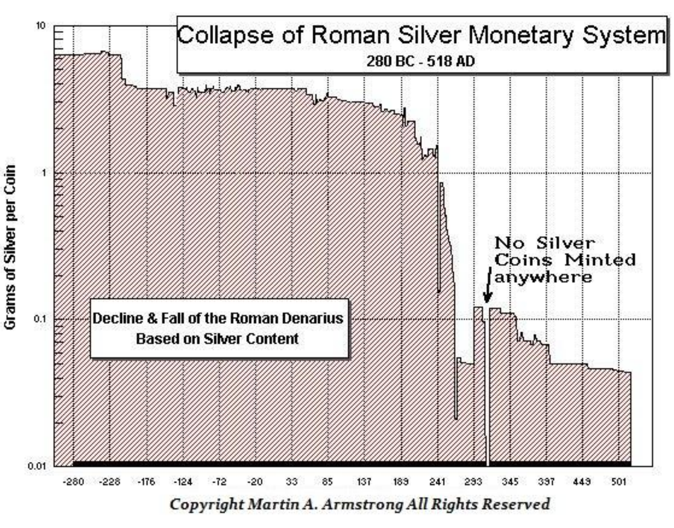
The response to the offering of Roman Coins was simply overwhelming. So many people have written asking how they can buy Roman Coins and others realizing these are from the 3rd Century have asked are there examples available documenting the collapse of the monetary system? I have contacted some old friends with respect to making available a selection of Roman coins of this 3rd Century period for those interested in owning a piece of real live history and/or demonstrating the Monetary Crisis that led to the fall of Rome from a hoard of Roman coins.

AHENOBARBUS (supported Brutus) Brutus (EID MAR) I Killed Caesar on Ides of March)

(9 Known) *(2 Known)*

Because of the turmoil of the 3rd Century and precisely the dangers we face today as government goes after citizens hunting down their wealth to confiscate to sustain their existence, what happens is they cause capital to hoard reducing the **VELOCITY** of money. Hoards of Roman coins of earlier chaotic periods exist, although much fewer in number. Consequently, the earlier coins tend to be much rarer. As shown above, here are two gold coins from the Post-Caesarian Civil War period (44-42BC) that followed the assassination of Julius Caesar. In the case of Brutus, a non-portrait silver denarius would bring generally \$2,000-\$5,000 where a silver EID MAR (bragging he killed Caesar) would be \$25,000-\$100,000. There are only two gold EID MAR (Ides of March) coins and these today would bring more than \$1 million. The gold Ahenobarbus (supporter of Brutus) would bring well over \$50,000 today.

Hoards of the 3rd Century are far more common. Pots with up to 50,000 coins have been discovered, but of course the condition is often well corroded making such coins worth perhaps \$10 simply because they are a relic of the past and a piece of history. Silver and gold coins endure through the ages much better than bronze. Thus, condition of coins during the 3rd century does help to reduce the supply of decent well preserved coins in proportion to the bulk that are found over time.



Consequently, those asking the question: ***Is it possible to obtain coins showing the drastic collapse in silver content of the 3rd Century?*** This collapse took place during the reign following Valerian I (253-260AD) who was captured by the Parthians (Persians) and stuffed as a wild animal trophy upon his death. His son, Gallienus (253-268AD) made no effort to rescue his father and the economic collapse thereafter is easily seen in the coinage. So the answer is yes! I have made arrangements for those seeking such an example of the Monetary Crisis of the 3rd Century.

This is an accommodation – not a business

ROMAN COINS DOCUMENTING
THE MONETARY CRISIS OF THE 3RD CENTURY

				Silvering	
				Mostly	
			Bronze	Intact	Silver
Valerian	253-260	Silver			200
Gallienus	253-268	Æ	40		250
Salonia	253-268	Silver			200
Postumus	259-268	Silver			125
Claudius II	268-270	Æ	50		
Aurelian	270-275	Æ	50		
Severina	270-275	Æ	100		
Tacitus	275-276	Æ	150	300	
Florianus	276	Æ	300	500	
Probus	276-282	Æ	65		
Carus	282-283	Æ	85		
Numerian	283-284	Æ	100	250	
Carinus	283-285	Æ	75	150	
Diocletian	284-305	Æ	50	125	
Maximianus	286-305	Æ	50	125	

The quality of these coins is virtually Extremely Fine without corrosion. All names are legible. These are the selected quality from the hoard and and are not the typical low grade junk often sold. This provides a good sampling of this period (minus the extreme rarities) that have survived thanks to the tremendous economic upheavals of the times that led people to burry their wealth.

Set of one average coin of the above non-corroded, VF condition all readable $595

Set of above with (2) Gallienus (Silver/Bronze) EF Top Grade all readable $2450.00

Prices include shipping. Payment is acceptable at:

PayPal™ ArmstrongEconomics@HotMail.COM

Or checks may be send to:

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